

BEFORE  
THE PUBLIC SERVICE COMMISSION OF  
SOUTH CAROLINA  
DOCKET NO. 2011-4-G - ORDER NO. 2011-580

AUGUST 17, 2011

IN RE: Annual Review of Purchased Gas	) ORDER RULING ON
Adjustment and Gas Purchasing Policies of	) PURCHASED GAS
Piedmont Natural Gas Company,	) ADJUSTMENT AND GAS
Incorporated	) PURCHASING POLICIES

The above-captioned matter is before the Public Service Commission of South Carolina ("Commission") concerning its annual review<sup>1</sup> of the Purchased Gas Adjustment ("PGA") and gas purchasing policies of Piedmont Natural Gas Company, Inc. ("PNG"). The Office of Regulatory Staff ("ORS") is a party of record in this proceeding under the provisions of S.C. Code Ann. § 58-4-10(B) (Supp. 2010). PNG and ORS (collectively the "Parties" or individually a "Party") entered into a Settlement Agreement ("Settlement Agreement") which was filed with the Commission on July 1, 2010.

The Commission conducted a formal hearing in this matter on July 13, 2011, beginning at 10:30 a.m. in the hearing room of the Commission with the Honorable John E. Howard, Chairman, presiding. Nanette S. Edwards, Esquire, appeared on behalf of ORS. James H. Jeffries IV, Esquire, and Brian Barnwell, Esquire, appeared on behalf of PNG.

At the hearing, the Commission accepted into the record the pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits

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<sup>1</sup> See Commission Order No. 88-294 dated April 6, 1988 (annual review).

of PNG witnesses Robert L. Thornton and William C. Williams, as well as the Settlement testimony of Mr. Williams. The pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct testimony of Carey M. Stites were also accepted into the record.

The Commission accepted into evidence the Settlement Agreement as Hearing Exhibit No. 1. Mr. Thornton's exhibits (RLT 1-2) and Mr. Williams' exhibits (WCW 1-6) were entered into evidence as composite Hearing Exhibit No. 2. Mr. Sullivan's exhibits (DFS 1-3) were admitted into evidence as composite Hearing Exhibit No. 3.

At the hearing, PNG witness Thornton testified to the end of period balances and the accounting for Piedmont's deferred gas cost account (Account 253.04) in order to permit the Commission to evaluate and determine that Piedmont's true-up procedures for the review period have resulted in a properly stated cost of gas; further, that Piedmont's gas costs are properly recorded in compliance with Piedmont's gas cost recovery mechanism and hedging plan. That accounting is set out in composite Hearing Exhibit No. 2. Mr. Thornton also stated that ORS audited PNG's gas cost accounting as part of this proceeding. Finally, Mr. Thornton testified that ORS audited PNG's Hedging Deferred Account, which records the results of its hedging activities undertaken in accordance with its hedging plan. This account was created pursuant to Commission Order 2002-223, which led to the implementation of PNG's experimental natural gas hedging program.

PNG witness Maust testified as to PNG's gas purchasing policies and the components of the "best cost" gas purchasing policy. Mr. Maust stated that PNG did not

implement any changes in its “best cost” gas purchasing policies or practices during the Review Period (April 1, 2010 to March 31, 2011) and PNG’s hedging plan acted as an insurance policy to reduce gas cost volatility to South Carolina customers purchasing gas from PNG. PNG’s South Carolina customers incurred a net economic cost of \$538,035 as a result of PNG’s hedging plan during the Review Period. Mr. Maust also testified that the “best cost” purchasing policy utilized by PNG has been reviewed and found prudent on all occasions in South Carolina and the other state jurisdictions in which PNG operates.

PNG witness Williams testified that PNG serves approximately 134,000 customers in South Carolina and that during the twelve month period ending March 31, 2011, Piedmont delivered approximately 24,334,000 dekatherms of natural gas to its South Carolina customers. PNG has continued to experience a reduction in weather normalized usage per customer which may be due to the efficiency of new appliances used by customers, as well as increased price awareness and conservation efforts on the part of customers. PNG and the natural gas industry have not seen evidence that conservation/reduced usage occurs during design day conditions.

In his settlement testimony, PNG witness Williams testified that, following extensive review, examination and discussions between PNG and the ORS, both parties agreed to each of the matters stipulated in the Settlement Agreement. The Settlement is offered by all parties as a fair, reasonable and full resolution of all issues in this proceeding as signified by all parties being signatories to the Settlement Agreement. Mr. Williams also testified that the change in the minimum amount that PNG is required to

hedge under its natural gas hedging program will enhance consistency with respect to the parameters under which SCE&G and PNG conduct hedging on behalf of South Carolina natural gas consumers.

ORS witness Sullivan testified that ORS had performed an examination of all aspects of PNG's deferred account #253.04 for the Review Period and that, based upon that examination as is identified and discussed in his testimony, it is the opinion of ORS that account #253.04 is accurately stated and that the balance of \$7,820,401 fairly represents PNG's over-collection balance as of March 31, 2011.

ORS witness Stites testified that PNG had adequate firm supplies to meet its firm customer requirements; is continuing its attempts to get the best terms available in its negotiations with suppliers; has used the spot market to purchase supplies for periods of one month or less; and managed its hedging activities in a manner consistent with the terms of its approved hedging program during the Review Period. Mrs. Stites also testified that if the decision is to retain PNG's hedging program knowing that there is a cost to the ratepayer, ORS recommends that there be no required minimum amount of hedging. Finally, ORS does not recommend any change to the benchmark cost of gas at this time.

The July 1, 2011, Settlement Agreement reflected the Parties agreement that: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner

consistent with Commission orders; (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan; and (v) the minimum volume of natural gas that is required to be hedged by PNG under its Commission approved natural gas hedging plan should be reduced from 22.5% of its normalized annual sales volumes to 0% of such volumes.

The Commission expressed concerns regarding the self-reported corrections to the accounting errors found in PNG's reports. ORS witness Sullivan testified that mistakes were not a recurring problem in the reports, but more of an exception in the reports. Mr. Sullivan did not feel that more internal controls or changes in policies and procedures would be necessary for PNG. Mr. Sullivan also clarified that each of the mistakes to PNG's account #253.04 identified in PNG witness Thornton's testimony were detected and corrected by PNG through its internal controls process prior to audit by ORS.

At the hearing, ORS advised the Commission that there is a lack of consensus between ORS and PNG as to whether there is a prudency review when the company has operated within the parameters of its approved hedging program. ORS advised the Commission that PNG's position is that, so long as the Company has operated within its Commission approved hedging program, the Company has made prudent gas purchases. ORS's position is that a prudency review does encompass any purchases including those made pursuant to PNG's gas hedging program. However, ORS and PNG elected not to submit this issue before the Commission in this case, because ORS found that PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent pursuant to the Settlement Agreement. However, this Commission hereby requests that

ORS seek an allowable ex parte briefing before this Commission on the issue of how to measure prudence in hedging programs, so that we may further consider this issue.

NOW, THEREFORE, based upon the foregoing, IT IS HEREBY DECLARED AND ORDERED THAT:

1. The pre-filed direct testimony of PNG witness Keith P. Maust and the pre-filed direct testimony and exhibits of PNG witness Robert L. Thornton and the pre-filed direct testimony and exhibits and the settlement testimony of PNG witness William C. Williams are accepted into the record without objection.

2. The pre-filed direct testimony and exhibits of ORS witnesses Daniel F. Sullivan and the pre-filed direct testimony of Cary M. Stites are accepted into the record without objection.

3. The Settlement Agreement is accepted into the record and incorporated into and made part of this Order as Order Exhibit No. 1, and based upon the testimony and exhibits presented at the hearing on this matter, is found to be in the public interest and constitutes a reasonable resolution of this proceeding.

4. Consistent with the terms of the Settlement Agreement, the minimum volume of natural gas that is required to be hedged by PNG under its Commission approved natural gas hedging plan is reduced from 22.5% of its normalized annual sales volumes to 0% of such volumes.

5. PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent.

6. PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period.

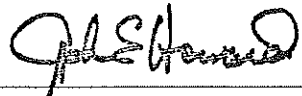
7. PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders.

8. The end-of-period balances for PNG's hedging and deferred gas cost accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

9. The Commission requests that ORS seek an allowable ex parte briefing before this Commission on the issue of how to measure prudence in hedging programs.

10. This Order shall remain in full force and effect until further Order of the Commission.

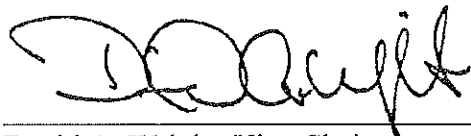
BY ORDER OF THE COMMISSION:



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John E. Howard, Chairman

ATTEST:



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David A. Wright, Vice Chairman

(SEAL)

**BEFORE**  
**THE PUBLIC SERVICE COMMISSION OF**  
**SOUTH CAROLINA**  
**DOCKET NO. 2011-4-G**

IN RE:

Annual Review of Purchased Gas	)	
Adjustment and Gas Purchasing	)	<b>SETTLEMENT AGREEMENT</b>
Policies of Piedmont Natural Gas	)	
Company, Incorporated	)	

This Settlement Agreement is made by and among the South Carolina Office of Regulatory Staff ("ORS") and Piedmont Natural Gas Company, Inc. ("PNG") (collectively referred to as the "Parties" or sometimes individually as a "Party").

WHEREAS, by the Public Service Commission of South Carolina ("Commission") Order No. 88-294, dated April 6, 1988, the Commission instituted an annual review of PNG's Purchased Gas Adjustment and Gas Purchasing Policies. Additionally, in Order No. 2002-223, dated March 26, 2002 in Docket No. 2001-410-G, the Commission required PNG to file regular reports on the status of the hedging program and the results of its hedging activities. In the above-captioned proceeding the review period is April 1, 2010 through March 31, 2011 ("Review Period");

WHEREAS, the Parties to this Settlement Agreement are the only parties of record in the above-captioned docket. There are no other parties of record in the above-captioned proceeding;

WHEREAS, the Parties have engaged in discussions to determine if a settlement of this proceeding would be in their best interest, and in the public interest;



WHEREAS, following those discussions the Parties have each determined that their interests and the public interest would be best served by settling the above-captioned case under the terms and conditions set forth below:

1. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony of Keith P. Maust, and the direct testimony and exhibits of PNG witnesses William C. Williams and Robert L. Thornton, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. PNG will present its witnesses at the hearing.

2. The Parties agree to stipulate into the record before the Commission the pre-filed direct testimony and exhibits of ORS witness Daniel F. Sullivan and the pre-filed direct testimony of ORS witness Carey M. Stites, without objection, change, amendment, or cross-examination by the Parties unless such is mutually agreed upon. ORS will present its witnesses at the hearing.

3. The Parties further agree that with the stipulated testimony of record and the agreement of the Parties regarding the review period activity and end-of-period account balances, the hearing record before the Commission will conclusively demonstrate the following: (i) PNG's gas purchasing policies and practices during the Review Period were reasonable and prudent; (ii) PNG properly adhered to the gas cost recovery provisions of its gas tariff and relevant Commission orders during the Review Period; (iii) PNG managed its hedging program during the Review Period in a reasonable and prudent manner consistent with Commission orders; and, (iv) the end-of-period balances for PNG's hedging and deferred gas costs accounts are those reflected in the testimony of ORS witness Daniel F. Sullivan.

4. In lieu of a total suspension of Piedmont's hedging program, the Parties agree that there should be no required minimum amount of hedging. Piedmont is currently required by Commission Order No. 2009-278 to hedge a minimum of 22.5% of normalized annual sales volumes.

5. The Parties agree to cooperate in good faith with one another in recommending to the Commission that this Settlement Agreement be accepted and approved by the Commission as a fair, reasonable and full resolution of the above-captioned proceeding. The Parties agree to use reasonable efforts to defend and support any Commission order issued approving this Settlement Agreement and the terms and conditions contained herein.

6. The Parties agree that by signing this Settlement Agreement, it will not constrain, inhibit or impair their arguments or positions in future proceedings. If the Commission should decline to approve the agreement in its entirety, then any Party desiring to do so may withdraw from the agreement without penalty.

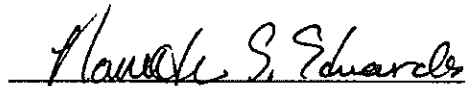
7. This agreement shall be interpreted according to South Carolina law.

8. Each Party acknowledges its consent and agreement to this Settlement Agreement by authorizing its counsel to affix his or her signature to this document where indicated below. Counsel's signature represents his or her representation that his or her client has authorized the execution of the agreement. Facsimile signatures and e-mail signatures shall be as effective as original signatures to bind any party. This document may be signed in counterparts, with the various signature pages combined with the body of the document constituting an original and provable copy of this Settlement Agreement.

[SIGNATURE PAGE FOLLOWS]

WE AGREE:

**Representing and binding the Office of Regulatory Staff**

A handwritten signature in cursive script, appearing to read "Nanette S. Edwards", is written over a horizontal line.

Nanette S. Edwards, Esquire

**Office of Regulatory Staff**

1401 Main Street, Suite 900

Columbia, SC 29201

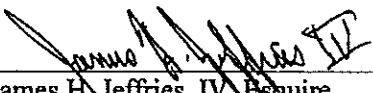
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WE AGREE:

**Representing and binding Piedmont Natural Gas Company, Inc.**



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